



UNIVERSITY NEIGHBORHOOD HOUSING PROGRAM

Working to Improve, Preserve, Create & Finance Affordable Housing

November 10, 2014

Office of the Comptroller of the Currency: Docket ID OCC-2014-0021

Federal Reserve Board: Docket OP-1497

Federal Deposit Insurance Corporation: Attention: Robert E. Feldman, Executive Secretary, CRA comments

RE: Proposed Changes to the Interagency Q&A Regarding Community Reinvestment

To whom it may concern:

I am writing on behalf of University Neighborhood Housing Program to respond to the request for comments on the proposed changes to the "Interagency Questions and Answers Regarding Community Reinvestment."). We have worked on Community Reinvestment issues going back to our founding as a community loan fund more than 30 years ago. We are in the midst of an affordability crisis where a majority of residents struggle to pay the rent in buildings that are often not well maintained. It is important that the Community Reinvestment Act stays relevant by supporting our work to have neighborhoods that are livable and affordable for working class residents.

We appreciate the regulatory agencies' attention to economic development, including language to increase investment in CDFI's that finance small businesses, and we urge the agencies to put more emphasis on the impact of the economic development activities and less on the mechanisms used. We appreciate the proposals to reward small dollar lending and the use of alternative credit histories with Community Reinvestment Act (CRA) credit. However, we urge the agencies to reconsider the suggestions regarding alternative service delivery methods. Access to banking services for low- and moderate-income (LMI) communities is a key component of CRA, and financial institutions must meet a high bar to prove that alternative service delivery methods are meeting the needs of LMI individuals. Until it is clear that alternative service delivery methods fully meet the needs of low- and moderate-income individuals and communities, bank branches and products should continue to receive greater weight on the service test of CRA examinations.

With regards to specific areas within the proposed regulations, we offer the following positive feedback as well as some very specific concerns we believe should be addressed:

- **Economic Development:** We applaud the regulators for examining this category to ensure it has more of an impact by incentivizing quality jobs, and not perpetuating low-wage jobs. We appreciate this and think the language could be even stronger in order to focus on and give credit for activities that create, retain and improve quality jobs. Rather than focus so much on a range of specific activities, regulators should focus more

on how the activity meets local needs. Based on a robust performance context that includes data analysis and conversations with a variety of local contacts, including community organizations, economic development organizations, and workforce development practitioners, banks and regulators can gain a good understanding of the types of jobs local communities need and reward activities that truly meet those needs. Activities that generate low-wage jobs and jobs with little opportunity for economic mobility, or that lead to displacement of LMI people should not get CRA credit.

At the same time, due to the very specific nature of the economic development category, the new Q&A will only cover a segment of the CRA-eligible activities related to jobs and workforce development. When looking at job creation and retention, all CRA activities related to jobs and workforce development should be evaluated for their impact on quality jobs that will benefit LMI people in general, and especially people with multiple barriers to employment.

- **Access to Banking:** We appreciate the positive aspects of this Q&A in that it modernizes the CRA evaluations to incorporate new ways people bank and assesses the costs and effectiveness of these new methods. However, we have three major concerns: (1) it fails to take into account the cost of all banking systems. For example, a bank might look good if the cost of alternative banking is found to be comparable to its basic branch products, even if both are too expensive or otherwise difficult for LMI people to access. Regulators should evaluate the use of and effectiveness of a bank's basic branch products, and then compare alternative delivery systems to see how they augment, supplement, and improve upon LMI consumers' access to banking. (2) It places too much emphasis on alternative deliveries when branches are still the primary method of banking for LMI populations, immigrants, and the elderly. We still have large areas of the country with few or no bank branches at all. This is the case in large areas of the Bronx and Brooklyn, which also have the highest rates of unbanked and under-banked people in New York City. (3) It must be made clear that financial institutions will not receive CRA credit for the LMI individuals and geographies outside the financial institutions' established assessment areas that are reached through mobile or online technology. So long as assessment areas are regional, examiners must restrict their assessments to a financial institution's performance and services in those areas.
- **Responsiveness & Innovativeness:** We appreciate the additional language to emphasize the importance of activities being responsive, and possibly innovative. Fundamentally, this should be emphasized throughout the CRA and should encourage the regulators to strengthen the performance context, such that it truly reflects the local needs. When evaluating any CRA activity, regulators should evaluate its impact and how that responds to local needs. It's not enough to offer a product, make a loan, make an investment – those activities must have a positive demonstrable impact on the communities they are meant to serve. This will also help identify practices and activities that were harmful, and thus not responsive. These should have a negative impact on a CRA exam. In order to get a Satisfactory, a bank must demonstrate that its basic services and community development activities are equitably and effectively serving LMI people and underserved populations, which would demonstrate responsiveness. Only then should regulators evaluate how innovative their products are, which if done effectively, could move a bank to Outstanding. At the same time, if through the exam process, community contacts, public comments, or other studies, regulators learn that a bank is engaging in practices that are decidedly **unresponsive, or worse harmful**, that should have a negative impact on the rating. This would be consistent with regulations

that now allow community development lending to have a positive, neutral, or negative impact on the lending test.

- **Innovative or flexible lending practices:** We are encouraged by the Agencies' inclusion of using alternative credit histories as a practice that warrants CRA credit. Many existing underwriting practices effectively exclude a large number of creditworthy LMI borrowers. Financial institutions would have a greater incentive to integrate alternative credit histories into their business with the added clarity that the practice is eligible for CRA credit. Small dollar loan programs, too, offer a promising alternative to higher-cost loans offered by institutions like payday lenders. And with the financial literacy and savings components, these loan programs offer real opportunities to help build sustainable wealth and financial knowledge. It must be clear to examiners, however, that these small dollar loan programs should only be awarded credit if they are safe and sound alternatives to high-cost and predatory products.

We urge the banking regulatory agencies to consider this feedback and to strengthen the revisions to the Interagency Questions and Answers document to ensure that LMI communities continue to receive adequate and accessible banking services. Should you have any further questions about our comments, please contact me at 718-933-3101 or greg@unhp.org.

Thank you for your consideration.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Gregory Lobo Jost', with a stylized flourish at the end.

Gregory Lobo Jost
Deputy Director for Policy and Research
University Neighborhood Housing Program